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25 August 1945

Mr. Harold D. Smith, Director
Bureau of the Budget
Executive Office of the President
Washington, D. C.

My dear Mr. Smith:

In answer to your communication of August 23, 1945 in reference to further reduction of personnel, we are working under what is in effect a liquidation budget. Within its provisions we have taken steps to terminate many of our operational (as distinct from intelligence) activities and to reduce the remaining parts to a size consistent with present obligations in the Far East, in the occupation of Germany and Austria, and in the maintenance of missions in the Middle East and on the Asiatic and European continents.

As our liquidation proceeds it will become increasingly difficult to exercise our functions so that we have found it necessary to set up a liquidating committee with procedures and controls to provide for the gradual elimination of our services in step with the orderly reduction of personnel.

It is our estimate, however, with the strictest economy of manpower and of funds the effectiveness of OSS as a War Agency will end as of January 1, or at the latest February 1, 1946, at which time liquidation should be completed. At that point I wish to return to private life. Therefore, in considering the disposition to be made of the assets created by OSS, I speak as a private citizen concerned with the future of his country.

In our Government today there is no permanent agency to take over the functions which OSS will have then ceased to perform. These functions while carried on as incident to the war are in reality essential in the effective discharge by this nation of its responsibilities in the organization and maintenance of the peace.

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Since last November, I have pointed out the immediate necessity of setting up such an agency to take over the valuable assets created by OSS. Among these assets was the establishment for the first time in our nation's history of a foreign secret intelligence service which reported information as seen through American eyes. As an integral and inseparable part of this service there is a group of specialists to analyze and evaluate the material for presentation to those who determine national policy.

It is not easy to set up a modern intelligence system. It is more difficult to do so in time of peace than in time of war.

It is important therefore that it be done before the War Agency has disappeared so that profit may be made of its experience and "know how" in deciding how the new agency may best be conducted.

I have already submitted a plan for the establishment of a centralized system. However, the discussion of that proposal indicated the need of an agreement upon certain fundamental principles before a detailed plan is formulated. If those concerned could agree upon the principles within which such a system should be established, acceptance of a common plan would be more easily achieved.

Accordingly, I attach a statement of principles, the soundness of which I believe has been established by study and by practical experience.

Sincerely,

William J. Donovan
Director

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Principles - The Soundness Of Which It Is Believed Has
Been Established By Our Own Experience And A First-Hand
Study Of The Systems Of Other Nations - Which Should
Govern The Establishment Of A Centralized United States
Foreign Intelligence System.

The formulation of national policy both in its political and military aspects is influenced and determined by knowledge (or ignorance) of the aims, capabilities, intentions and policies of other nations.

All major powers except the United States have had for a long time past permanent worldwide intelligence services, reporting directly to the highest echelons of their Governments. Prior to the present war, the United States had no foreign secret intelligence service. It never had had and does not now have a coordinated intelligence system.

The defects and dangers of this situation have been generally recognized. Adherence to the following would remedy this defect in peace as well as war so

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that American policy could be based upon information obtained through its own sources on foreign intentions, capabilities and developments as seen and interpreted by Americans.

1. That each Department of Government should have its own intelligence bureau for the collection and processing of such informational material as it finds necessary in the actual performance of its functions and duties. Such a bureau should be under the sole control of the Department head and should not be encroached upon or impaired by the functions granted any other Governmental intelligence agency. Because secret intelligence covers all fields and because of possible embarrassment, no executive department should be permitted to engage in secret intelligence but in a proper case call upon the central agency for service.

2. That in addition to the intelligence unit for each Department there should be established a national

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centralized foreign intelligence agency which should have the authority:

- A. To serve all departments of the Government.
- B. To procure and obtain political, economic, psychological, sociological, military and other information which may bear upon the national interest and which has been collected by the different Governmental Departments or agencies.
- C. To collect when necessary supplemental information either at its own instance or at the request of any Governmental Department by open or secret means from other and various sources.
- D. To integrate, analyze, process and disseminate, to authorized Governmental agencies and officials, intelligence in the form of strategic interpretive studies.

3. That such an agency should be prohibited from carrying on clandestine activities within the United

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States and should be forbidden the exercise of any police functions either at home or abroad.

4. That since the nature of its work requires it to have status, it should be independent of any Department of the Government (since it is obliged to serve all and must be free of the natural bias of an operating Department). It should be under a Director, appointed by the President, and be administered under Presidential direction, or in the event of a General Manager being appointed, should be established in the Executive Office of the President, under his direction.

5. That subject to the approval of the President or the General Manager, the policy of such a service should be determined by the Director with the advice and assistance of a Board on which the Secretaries of State, War, Navy and Treasury should be represented.

6. That this agency, as the sole agency for secret intelligence, should be authorized, in the foreign field only, to carry on services such as

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espionage, counter-espionage and those special operations (including morale and psychological) designed to anticipate and counter any attempted penetration and subversion of our national security by enemy action.

7. That such a service should have an independent budget granted directly by the Congress.

8. That it should be authorized to have its own system of codes and should be furnished facilities by Departments of Government proper and necessary for the performance of its duties.

9. That such a service should include in its staff specialists (within Governmental Departments, civil and military, and in private life) professionally trained in analysis of information and possessing a high degree of linguistic, regional or functional competence, to analyze, coordinate and evaluate incoming information, to make special intelligence reports, and to provide guidance for the collecting branches of the agency.

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10. That in time of war or unlimited national emergency, all programs of such agency in areas of actual and projected military operations shall be coordinated with military plans, and shall be subject to the approval of the Joint Chiefs of Staff, or if there be a consolidation of the armed services, under the supreme commander. Parts of such programs which are to be executed in the theater of military operations shall be subject to control of the military commander.

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DONOVAN LETTER TO DIRECTOR OF THE BUDGET
WITH ACCOMPANYING "PRINCIPLES WHICH SHOULD
GOVERN THE ESTABLISHMENT OF A CENTRALIZED
U.S. FOREIGN INTELLIGENCE SYSTEM."

The unfortunate publicity given to the Donovan Plan and to JIC 239/5 forced them into a long retirement. Also during the first half of 1945 the tempo of the war in Europe and the Far East was such as to occupy the full energies of all intelligence agencies. Within OSS considerable thought was being given to the theory and principles of field organization for a peace-time secret intelligence system, but the place which that would occupy in a national intelligence organization was left without much published discussion.

Immediately following V-J Day, however, the matter of liquidation of the war agencies came to the front and the OSS was threatened with extinction. In this connection the Bureau of the Budget played a leading role. This explains why General Donovan raised once more, and this time with Mr. Smith, the question of a centralized intelligence service. It is interesting to note in the letter the clear indication that Donovan personally expected to be out of the picture entirely by the end of the year.

Donovan's presentation again brings forward his proposal to put the centralized service directly under the control of the President, with an advisory board made up of the Secretaries of State, War, Navy and Treasury, or their representatives. The inclusion of Treasury was probably due to the importance which Treasury had assumed as a customer for intelligence because of its great interest in Safe Haven matters and other types of fiscal intelligence and counterintelligence.

It is not clear from the documents whether this renewal of the Donovan idea was the stimulus which drove the JCS to the completion and presentation of their counter-proposal, embodied in JCS 1181/5. It is, however, interesting to note that the date of this document as finally amended, 19 September 1945, was but one day in advance of the announcement of the dissolution of OSS. The division of the OSS corpse between the State and War Departments was ordered to be accomplished by 1 October.